Development (1928) Department

SERIES.

G.O. No. 528

DATED 23.3.1928

[Despatch Abstract.]

dustries - State Aid to Industries
Act - Loan to Canara Rice and
Saw Mills Ltd. - Recovery -
Ordered

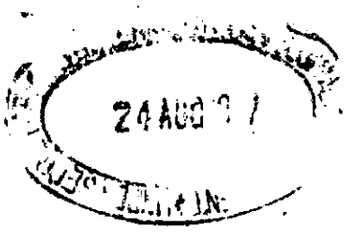
DEPARTMENT.

Received ..... 192 . *Registered* ..... 192 .

Dr 2675-II

Subject

State Aid to Industries - The Canara Rice and Saw Mills Ltd., Utilisation of loan granted to.



ENCLOSURES.
No. .....
.....
Spare copies .....

No.173-A/27

Station M a d r a s ....., *Dated the* 19th August 192 7.

From (Name) The Hon'ble Khan Bahadur Muhammad Bazl-Ul-Lah Sahib Bahadur, C.I.E., O.B.E.,

(Designation) Director of Industries,

To The Secretary to the Government of Madras,

Development Department.

Sir,

I have the honour to address Government on the subject of the utilisation of the loan of Rs9,600 sanctioned in G.O.No.312 Development dated 2nd March 1925 to Messrs Kelkar Bros., Managing Agents, the Canara Rice and Saw Mills Ltd., Coondapoor.

2. The loan was granted to Messrs Kelkar Bros., for the purchase of a Vertical Band Saw for their mills. As a suitable Band Saw could not be obtained for the amount of the loan, the firm purchased a Circular Saw Mill, on the recommendation of the Chief Forest Engineer. Government approved of this purchase in their Order No.1317, Development, dated

9th September 1926, in which they also sanctioned the firm's proposal to utilise the balance of the loan for the purchase of a Frame Saw for the supplemental work of sawing planking. The cost of the Circular Saw Mill was Rs.2,861-15-0 and the incidental charges, cost of accessories and of installation brought the total expenditure to Rs.5,020-6-0. The balance of the loan amount was therefore Rs.4,579-10-0. This amount should have been utilised for the purchase of a Frame Saw, but Messrs Kelkar Bros. latterly submitted a request that they should be permitted to use it for purposes of working capital. They represented that their concern was handicapped for want of adequate finance and that the difficulty experienced with the Forest Department in regard to timber supplies and the fact that the Mills were not working to full capacity militated against the installation of any additional machinery.

3. In view of the situation which had arisen, I arranged in February last for an inspection of the Mills by the Chief Forest Engineer in conjunction with the Deputy Director of Industries. The object of the inspection was (1) to ascertain whether the Circular Saw installed, satisfactorily served the purpose for which it was intended, (2) to determine whether in the interests of the concern it was not necessary to supplement the Circular Saw with a Frame Saw, and if this were not necessary, whether the unexpended portion of the loan should be refunded and (3) generally to investigate the present position of the Mills, particularly the question of timber supplies.

The circular saw installed was ~~enough~~ found to be satisfactory, being large enough to handle the class of logs sawn. As regards the addition of a Frame Saw, the Chief Forest Engineer and the Deputy Director, after an examination of the position, came to the conclusion that for the present this was inadvisable, for the following reasons:

(i) The existing equipment of the Mills is sufficient to deal reasonably satisfactorily with the full quantity of timber which they are likely to be able to obtain from the

Forest Department annually.. In fact, the position is that the existing equipment has not been operated to full efficiency, for want of proper organisation and supervision of the milling operations. A point to be considered in this connection is the wastage from saw kerf in cutting boards or planks with a large Circular Saw. With expensive timber, this would be an important matter but with logs obtainable at Coondapoor at about half the value that they are at Kallai or other large timber centres, the monetary loss in saw kerf wastage is negligible.

(ii) The concern lacks power to run any additional machinery. The power plant of the mills is an 8 N.H.P. or 24 B.H.P. engine. This would be sufficient to run the present equipment, but could hardly carry a Frame Saw or Re.-saw in addition. Any proposal to work alternately the Break-down Saw and the Re-saw, i.e. keeping one idle while the other is running, would not be an economic proposition.

(iii) The difficulty experienced by the Managing Agents in financing the operations of the Mills, is great. The shareholders of the concern have not paid up the remaining 25% of their subscriptions, aggregating about Rs15,000 and Messrs Belkar Bros. were unable to pay the full instalments on the due dates for timber purchased last year from the Forest Department. Owing to their financial inability to take prompt delivery of timber, the Mills were not worked during part of the year and this fact largely contributed to the loss of Rs3,659-11-8 sustained by the concern.

The position regarding timber ...

must also be referred to. In 1925, the Conservator of Forests, VI Circle, sold , it is understood, the whole of the outturn from the timber felling area concerned, to the Company at 10 as. per c.ft. Last year, the Company secured the whole of the available supply of 40,000 c.ft. by tender for annas .8 per c.ft. This year, however, the Forest Department have followed the practice, which they usually adopt elsewhere, of putting up their timber to auction. Messrs Kelkar Bros. refrained from bidding at the auction, apparently in the expectation that there would be no suitable bidders and that they would subsequently be able to obtain by tender all the timber they required, at a very low price. But the Forest Department were able to sell at auction 20,000 c.ft. of timber and had a balance of about 16,278 c.ft. only to be disposed of by tender. Owing to the risky procedure adopted by them, Messrs Kelkar Bros., have been able to obtain this year only the above quantity of 16,278 c.ft. by offering as.9/- per c.ft.- the payment being allowed to be spread over 8 months. As the Mills are entirely dependent on the Forest Department for timber supplies and as it is also advantageous for the latter to have a steady permanent outlet for their timber, it would be most convenient if they could agree to sell to Messrs Kelkar Bros., the whole of the outturn from the concerned timber felling area at the market price, rather than hold auctions or call for tenders. The Forest Department, however, have not been agreeable to this, but are now considering the question of future arrangements.

5. It will be apparent from the foregoing that the Canara Mills are handicapped at present for lack of adequate working capital and that until the concern is on a firmer footing and working at a profit, further expansion in the direction of equipment would be unwarranted. I, therefore, recommend that Government may be pleased to permit Messrs Kelkar Bros. to utilise the unexpended balance of the loan-viz. R.4579-10-0

remaining with them for the purpose of working capital for their concern, subject to the following conditions:

(i) that the Company undertake to appoint a competent Foreman, on about Rs100 per mensem, to supervise the operations of the Mills generally and to organise other working arrangements in such manner as may be advised by the Chief Forest Engineer, so that the concern may be operated efficiently.

(ii) that detailed monthly statements of production and sales, additions to and withdrawals from stock and other financial statements are regularly submitted to this Department by the concern.

If the Company are unable to agree to these terms, there is nothing for it but to ask the Company to repay forthwith the amount of the balance of the loan.

I have the honour to be,
Sir,
Your most obedient servant,

for Director of Industries.

sn.22.8.

22/8

8/3/29 + RE 3/29

6

Dev. Deptt.

OM. No. 2615 II/27-I dated 3 9.27

Reference:- Letter from the DD. No. 173-A/27 d. 19.8.27 re: diversion to working Capital of the loan granted to Canara Rice and Saw mills Ltd.

The DD. is requested to submit the latest balance sheet and profit and loss account of the Canara Rice and Saw mills Ltd. Coondapoor. If audited figures for the year ~~ending~~ ending are not available those for the previous year should be ~~obtained and~~ forwarded.

2. He is also requested to ascertain the precise extent to which an accession to the working Capital is absolutely necessary at the present moment and to report how far the diversion of the balance of the Govt. loan to working Capital is expected to ~~afford relief~~ ease the pressing financial ~~The~~ situation of the mills.

Dept
11/9/27
29-9-27

Dept ack 3/9

The Director of Industries, Madras.

IS 11/9/27
I 17.12.27.
II - 22-2-28
III -

RL 29.9.27

29.9.27

29.9.27

DEPARTMENT.

Dev. 859 II
28.2.28

Received 22 Feb 28 192 Registered 192

Subject.

State Aid - Canara Rice and Saw Mills Ltd., - Recovery of unspent balance of the loan - regarding :-

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ENCLOSURES.
No.
Spare copies

No. 151-A/28.

Station Madras., *Dated the* 23rd February 1928.

From (Name) Khan Bahadur M. Bazl-ul-lah Sahib Bahadur, C.I.E., O.B.E.,
(Designation) Director of Industries,

To The Secretary to the Government of Madras,
Development Department.

Sir,

p. 6 ante

With reference to Government Memorandum No.2615-II/27-1 dated the 3rd September 1927, I have the honour to enclose for perusal and return a copy of the Balance sheet and Profit and Loss Account of the Canara Rice and Saw Mills Ltd., Coondapoor for the year ending 31st May 1927.

p. 6 ante

2. As regards the points raised in paragraph 2 of the Government Memorandum, the firm reported in September 1927 that the whole of the unspent balance would be required as working capital to ease its financial position, and stated that they had, in anticipation of sanction, utilised the amount towards working capital. The firm were informed that the procedure adopted by them was open to very grave objection and that Government were likely to take a serious

view of the case. With a view, however, to ascertaining whether, and if so, to what extent the diversion of the Government loan to working capital had eased the financial situation of the mills, the Management were asked to submit through their auditor detailed comparative statements showing the items of expenditure, receipts, production, sales, opening and closing stocks, opening and closing balance (either in the Bank or on hand) etc., for (a) a period of two months immediately preceding the date on which the unspent balance of the loan amount was first utilised for purposes of working capital and (b) for each month subsequent to that date. The firm were also specifically informed that my support to the proposed diversion of the loan to supplement the working capital of the concern would be contingent on the firm agreeing to abide by the conditions suggested in paragraph 5 of my letter to Government dated 19th August 1927, viz. the appointment of a foreman to the satisfaction of the Chief Forest Engineer and the submission on the 5th of every month of a statement showing the particulars noted above. After a delay of over a month and after the issue of a reminder, the firm forwarded on the 7th November 1927 the latest balance sheet as approved by the auditor and promised to reply to the other points as soon as the Managing Director who was then reported to be ill was able to attend to his duties. The management were again reminded on the 25th idem and told that if no reply was received by the 10th December 1927, the department would proceed on the assumption that they were not willing to agree to the conditions and report accordingly to Government. In their letter dated 7th December 1927 the firm asked for time till the 25th December to submit the statements and finally wrote on the 6th January 1928 that the monthly statements would be submitted from January onwards and that statements certified by the auditor would be submitted every six months (vide copy of their letter enclosed). It will also be observed that the Management are not prepared to appoint a competent foreman unless he can guarantee a minimum output. It is obvious that no foreman will be prepared to give any such undertaking, and my own opinion is that the firm

is trying to evade the condition. Even as regards their promise to submit the monthly statements from January onwards, I very much doubt if the promise will be kept. The statement due on 5th February, 1928 has not been received and my experience of the firm's business methods has not been very happy.

3. In the circumstances and in view of the fact that the accession to the working capital has not had, as will be seen from the accompanying statements furnished by the firm, any real beneficial effect on the working of the mill, beyond enabling them to carry larger stocks, I suggest that the Management be asked to refund into the Government Treasury within a prescribed period, say one month, the amount of Rs.4,579-10-0 which is the balance left of the loan after the purchase and erection of the circular saw. If the management make default in this matter, action will have to be taken in terms of paragraph 4(3) of the mortgage deed executed. I am aware that this is an extreme step to take in regard to a state aided concern, but the circumstances seem to warrant it and the Canara Mills are not, I consider, deserving of any further concession. The concern is run on unbusinesslike lines and the management are not prepared to accept suggestions with a view to its being placed on a proper footing.

I have the honour to be

Sir,

Your most obedient servant,

for Director of Industries.

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Dev Deptt.

M-1-5-C.7 | Letter from the DC., No. 173-A/29 dt. 15.8.29

State aid to industries - loan to Canara Rice and Saw Mills Ltd. - division towards working Capital.

To AS.

Please see the DC's letter in the Current file.

2. The loan was originally sanctioned for the purchase of a vertical band saw. Then the purchase of a circular saw plus a frame saw was approved. Now a portion of the loan amounting to Rs. 4,579-10-0 is proposed to be diverted to working Capital and sanction for it is applied for.

G.O. 1317 Dev 9.9.26 ⊗ para 2 on p. 2 CF
para 5 on pp. 4-5 CF

3. Taking first the merits of the question into consideration, a concession in the direction applied for would seem to be justified in the light of the DC's remarks which reveal the fact that an accession to the working Capital of the Mills is of far more practical importance at the present moment than any addition to its machinery. Again,

see para 5 on pp 4-5 CF.

allthó' the managing agents of the mill, have again violated the Condition as to utilisation of the money ~~laid down~~ so as to justify foreclosure of the entire loan, one more chance may perhaps be given before the question of resorting to this step is considered.

4. The point to be considered is whether the Conditions prescribed / the A.D. will be workable, especially Condition No. (i) The Mills are stated to have sustained a loss of Rs. 3059/- odd last year, and with the financial position justify the appointment of a foreman on Rs. 100/- per month to supervise the operations, etc. If so ordered, the A.D. will be requested to examine this point further.

| p. 5. c. 1

| item (iii) on p. ...

| we need not be further satisfied that they are sufficient to employ a competent manager [illegible] appointment as suggested by the Factory Engr. Should be approved.
ec
29.7.

5. The ~~position as the legal effect would appear to be. This~~ diversion of the balance of the loan to working Capital does not affect the question of security as in valuing the security before sanctioning the loan the value of the additional assets that will be created by the application of the loan was not taken into account.

| vide para 2, [illegible] p. 3, [illegible] 212 d. 2-3 15 [illegible] 3

6. There is however one point on which the A.D.'s letter is not very clear. Altho' it is tried to be made out that an addition to the working Capital is more urgently needed

H. 10-12-C.F. — and loss and other accounts on the year's working which show that the Company sustained a loss of Rs. 2,848-10-10 during the year. This result is in keeping with the results of previous years.

to 10 C.F.

2. The Director considers that in view of the bad working of the Concern and the un-businesslike lines on which it is run and the management's unpreparedness to accept suggestions for its improved working, there is no other course but to ask the management to refund into the Govt. Treasury within a prescribed period say one month, the amount of Rs. 4,579-10-0 which is the balance left of the loan (of Rs. 9,600/-) after the purchase and erection of the Circular Saw.

para 2 on p. 9 C.F. —

3. It will be noted that the amount has already been absorbed in the working Capital and therefore there is sufficient justification for enforcing the Condition laid down in clause (c) of the order sanctioning the loan with regard to its proper utilisation — vide p. 11 of G.O. No 312, Dev. dt. 2. 3. 1925. But considering that if the Company is

para 2 on p. 7 C.F. —

were asked to refund the money, that
will further aggravate its present
financial embarrassments it is for orders
whether that step will be taken or
whether it will be permitted to repay
the loan in accordance with the
stipulations of the original order, in (d) on p. 11 ; 3
annual instalments.

If enforcement of immediate repayment
of the balance of £ 6579-10-0 be considered
as likely to involve the mills in financial
difficulties, the repayment may be ordered to be made
in three equal monthly instalments, the first of such
payments commencing 60 days from the date
of order.

S.

Submitted.

2. The Mills are in a bad way &
though working capital is there (reserved), the Shareholders are not willing
to come forward & help it with the
balance of Capital, 25% which is (iii) on p. 1,
to be found up.

3. The history of the present
Correspondence indicates fairly clearly
that not only is the management
very unbusinesslike, but that it

para 3 on p.9 C.F.

h.4-l.7.

M-8-9-C.4

para 2 on p.7 C.F.

para 3 on p.9 C.F.

...not even required to take Competent ...work, means and use of Govt's Capital. Their gambling on the off chance of being able to get timber cheap from the Forest Dept. if the latter are not able to Contractors a fair enough price in Public auction, & their consequent inability to get enough timber for the Mill, does not show much business foresight. Their utter indifference to Govt's use, chiefly with eyes to account of the appointment of a Competent foreman means that they have not even a desire to improve.

Their diversion of a substantial amount (£4579.000 out of £9600) of the loan as working Capital is violent breach of the Clear conditions on which the loan was given, would have had something to do to make it, had the diversion resulted in any increased efficiency of the Mill as a factor of production. But it has merely enabled them to carry larger stocks - an entirely unproductive result.

Under these circumstances the Mill is not qualified to have

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of sanctions on Government-bounty, however such generosity likely to produce any lasting benefit and economic effect on the position at Calais.

Before the D.P.P. may proceed any summary action is likely to end the Concern; the Company instituted proceedings the balance of loan; unexpected Powers, if such Calumnies may arise be accepted.

Cricklewood
6/3
Returned 6/3

H.B.

M. 2. 7/3/28 H.B.

do 11a →

A draft is submitted for approval which may be sent to Finance for acceptance. As the Order wants this Dept to issue and address direct to the Company — vide para 3 of this letter at page 5 c. 7 — the Order has been drafted accordingly, ~~if deemed necessary, the draft may be sent also to Law (Draftsman)~~

16 MAR 19

Dep. A. 265 I/27-2
15. 3. 28
Fin 9812 Eth
16.3.28

Secty. II-5 (a)—38,004—26-10-27. (6)

Dev DEPARTMENT.

	Date.	Initials.
When received for Fair-copying.		
When copied ..		
When examined ..		
When signed ..		
When despatched ..		

Industries

State Aid to Industries Act — loan to Canara Rice and Saw Mills Ltd — recovery — ordered.

READ AGAIN G.O. No. 312 Dev, dated 2-3-1925

" " " " 1317, Dev " 9-9-1926.

READ ALSO:—

C. No. 2615 ü/27 From the AD, No. 173 A/27 dated 19-8-1927.

" " Office " AD No. 2615 ü/27-1 dated " 3-9-27 192 .

859 ü/28 " AD " 151-A/28 " 23-2-1928.

ORDER.

No. 528, dated 23-3-1928

In G.O. No. 312 Dev. d. 2-3-25 the Govt. sanctioned, under sections 5 (1) (b) and 6 (a) of the Madras State Aid to Industries Act, 1922 (Act V of 1923), the grant of a loan of Rs. 9,000/- to Messrs. Kelkar Bros., managing Agents of the Canara Rice and Saw Mills Ltd. Coondapoor, for the purchase of a vertical band saw for the mills. In G.O. No. 1317, Dev d. 9-9-26, being informed that the Company had purchased on the re-

Commendation of the Chief Forest Engineer a circular saw mill ~~Cost of Rs. 2861-15-0~~ instead of a band saw (which was stated to be not available) at a Cost of Rs. 2,861-15-0, the Govt. approved their action and also sanctioned their proposal that the balance of the loan should be applied to the purchase of a frame saw in addition. The Cost of the Circular saw mill together with the incidental charges and Cost of accessories and and the Cost of installation is stated to have brought the total expenditure to Rs. 5,020-6-0, leaving a balance of Rs. 4,579-10-0, which should have been utilised for the purchase of a frame saw. The Govt. have been informed that instead of utilising the money in this direction the Company has utilised ~~the amount~~ it as working Capital. This is in contravention of the terms on which the loan was sanctioned

para 3 on p. 9 C.F.

and the Company are not prepared to adopt the suggestions of the Director of Industries & Commerce

Govt. are not satisfied that the use of the balance of the loan as working capital has in any way improved the working of the Mills, they hereby direct that Messrs. Kelker Bros. Managing Agents of the Canara Rice and Saw Mills Ltd. Coondapoor, do pay into the Govt. Treasury the balance of the loan left after the purchase and erection of the Circular Saw, amounting to Rs. 4,579-10-0, in three equal monthly instalments with interest at 6½% on the amount outstanding from time to time the first of these instalments being payable on the expiry of sixty days from the date of this order.

2. The Director of Industries is requested to report to Government the action taken by the Company in compliance with this order.

para 2 on p. 2 C.F.

Dpd. by (1) Pant (2) Van (3) (4)

28/3/28

To (1) Messrs. Kelker Bros. Managing Agents The Canara Rice and Saw Mills Ltd. Coondapoor. (S. Kanara District) (per Post)

(2) The Director of Industries (with the balance sheet of the Company)

(3) The Accountant General (this file)

14-3-28

15.3.

24

Copy of letter No.Ref.C.No.2055/F.27-C-1 dated the 26th February 1928 from the District Forest Offier, North Mangalore to the Conservator of Forests, Sixth Circle, Ootacamund.

Sub:-Timber sales - 1927-28.

Ref:-Your Ref.No.A.1212/27 dated 17th January'28

Immediately on receipt of your telegram, dated 17th January 1928 accepting the tender of the Canara Rice and Saw Mills, Coondapur for the timber other than Hopea, detailed in your R.C.No.1212/27, dated 19-12-1927 to the Mills, a wire was sent to the Managing Agent on 19-1-1928 intimating the acceptance of his tender for the timber other than Hopea and requesting him to execute the agreement. A post copy of this telegram and a separate letter to this effect were also delivered in his office at Mangalore on 20-1-1928. A copy of this letter was also sent to him by registered post to Coondapur, and this was acknowledged on 23-1-1928. As the agent did not reply, I sent again a special letter on 8-2-1928 by registered post intimating that, if he did not want to purchase the timber, he should say so immediately so that other arrangements might be made for its disposal or else he should appear in this office at once with the security deposit and the 1st instalment due in January 1928 and execute the agreement without further delay. The letter was acknowledged on 14-2-1928, but no reply has yet been received. I happened to meet Mr. U.G.Kelkar the managing agent, at the auction of timber held at the Bunder depot,Mangalore, on the 14th February. He then promised to execute the agreement at Coondapur between 17th and 19th February, but failed to

appear. I have again asked him in my R.C.No.2055/F.27-C-1 dated 22-2-1928 (copy already submitted to the Conservator) to meet me in camp and execute the agreement. He has not yet appeared up to date.

2. The Mills are probably hard for money. They have not paid, despite several reminders, one instalment of Rs.1,144-8-9 in respect of 1926-27 timber. The instalment was due on 31-5-1927.

3. I am sending a copy of this office note to the Director of Industries who has lent money to the Mills for his information.